

# Does That Apply to Me?

How Actuarial Standards of Practice Apply to Your Daily Work

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May 21, 2013

# Disclaimer

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# True or False?

Determining whether an ASOP applies is up to the judgment of each actuary    The main work of the ABCD is to discipline actuaries for bad practice    Practice notes from the Academy provide binding guidance to actuaries

ASOPs apply only to actuaries that sign reports or opinions    I can comply with an ASOP even if I don't follow the guidance in it as long as I disclose any deviations

If I am aware of another actuary violating an ASOP, I don't have to do anything    ASOPs apply only to members of the Academy

TRUE

FALSE

# Professional Risk

“The possibility—likely probability—of litigation against actuaries has been percolating in the United States. As noted, the increasing attention on [pension] funding deficits and corruption places the actuarial profession on the cusp, perhaps one failure away from SOX-like regulatory reforms in professional conduct and relationships”

*“A Proactive Proposal for Self-Regulation of the Actuarial Profession: A Means of Avoiding the Audit Profession’s Post-Enron Regulatory Fate” by Sally Gunz\* and Marianne M. Jennings\*\*, American Business Law Journal, Winter 2011*

# Code of Conduct Requires Standards Compliance

- Code of Conduct adopted by 5 major actuarial organizations (AAA, SOA, CAS, CCA, ASPPA)
- The Code of Professional Conduct sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.
- Precept 3: “An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.”
  - 3-1: Observe standards in the jurisdiction in which the work is rendered
  - 3-2: In determining applicability, use judgment considering generally accepted actuarial practice
  - 3-3: If deviating from guidance in a standard, be prepared to justify

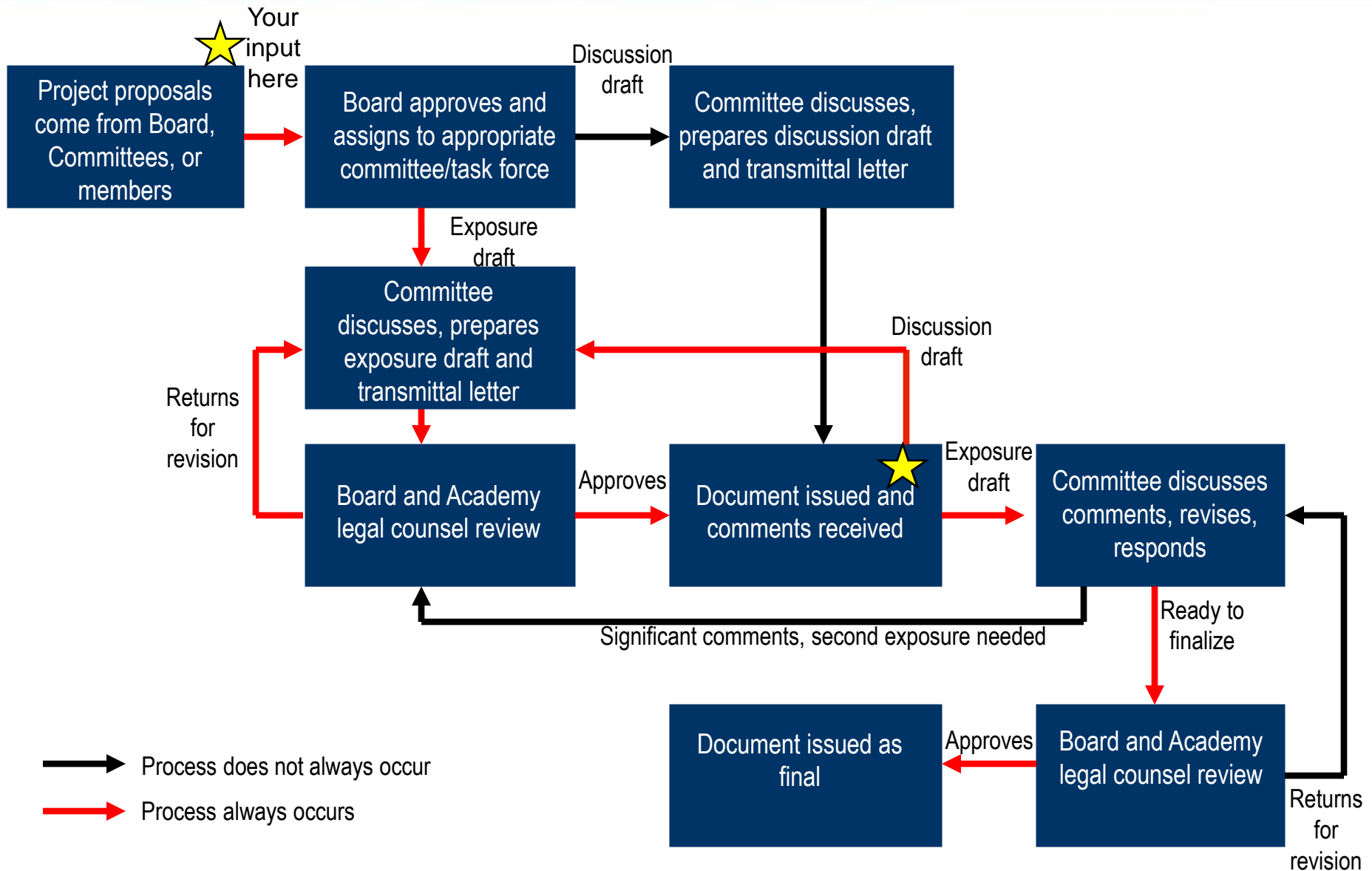
# Purpose of Actuarial Standards of Practice

- Standards serve to (1) assure the public that actuaries are professionally accountable, and (2) provide practicing actuaries with a basis for assuring that their work will conform to appropriate practices
- Standards protect the public by:
  - Indicating for various areas of actuarial practice the appropriate procedures, techniques, and approaches, thereby enhancing the public's trust in the credibility and completeness of the actuarial work
  - Providing a means by which the many separate elements that make up actuarial practice can be reviewed and updated on a regular basis, so that practice remains current
  - Furnishing criteria for evaluating actuarial work products
  - Providing a basis for discipline in those instances in which the guidance in the standards is not followed
- For individual actuaries, standards confer major benefits as well, by:
  - Providing guidance, particularly in practice areas that may be somewhat unfamiliar
  - Giving strong evidence to any interested observer that the profession serves the public in an effective and responsible way
  - Offering evidence of appropriate professional performance, which constitutes a defense in any civil or professional disciplinary action.
- Standards of practice also serve to further assure regulatory authorities that they can depend on the actuarial profession to act effectively in the public interest.

# Actuarial Standards Board

- The ASB was founded in 1988 with the sole authority to develop, obtain comment upon, adopt and continuously review standards of practice.
- Nine members (2 for each practice area plus Chair)
- 3-year terms; with no more than one renewal
- Generally, one-third of the Board appointed each year
- Appointed by Council of U.S. Presidents

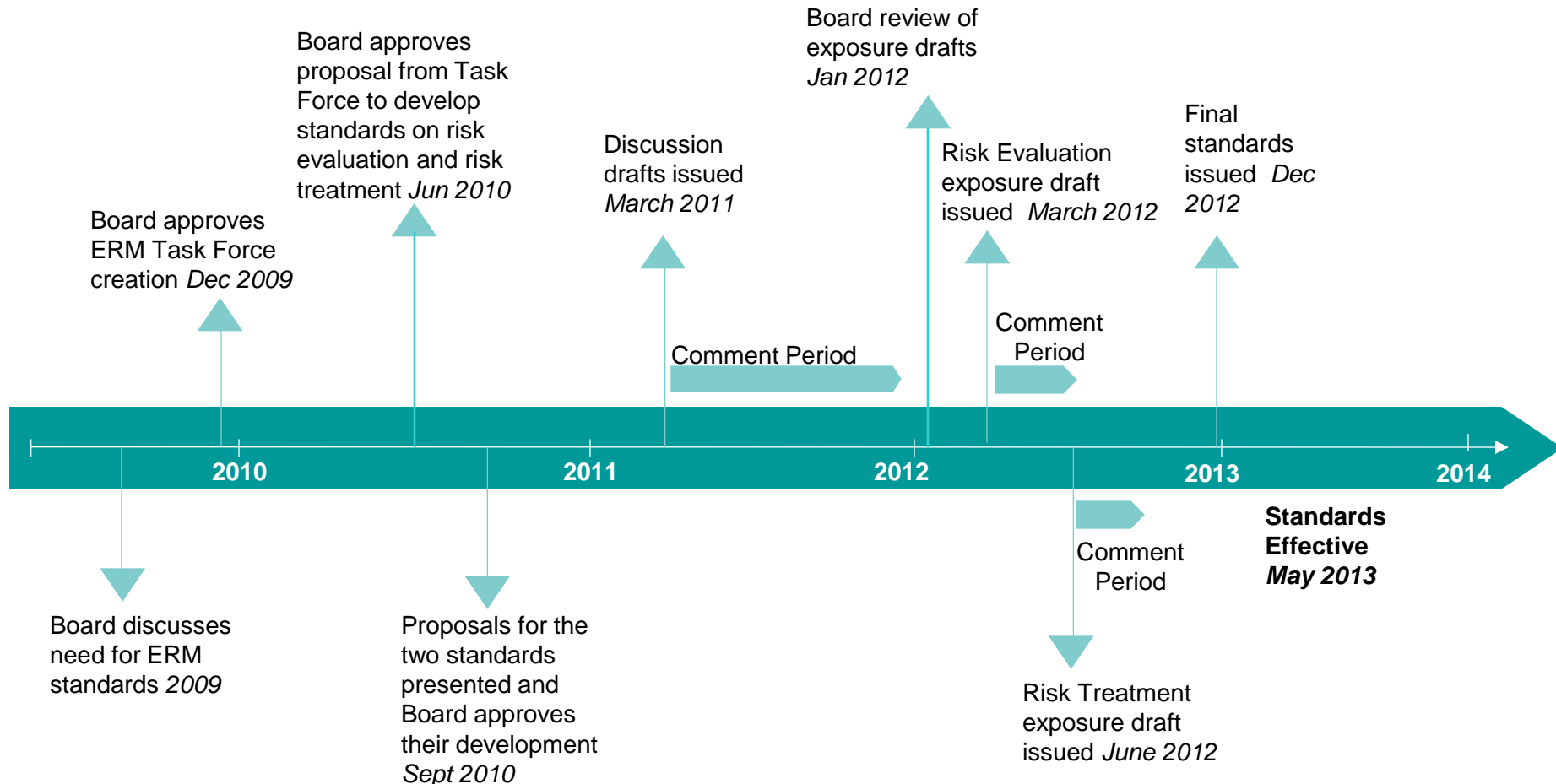
# Standard Setting Process





# Example Timeline for Standard Development

Start to finish, standards can take several years to develop, in part due to the importance of providing sufficient time for feedback from members and the public.



# All Actuaries Subject to Requirements of ASOP 41

- Every communication (whether written or verbal) containing an actuarial finding, must also include specified disclosures
- Disclosures include items such as:
  - intended user
  - scope and purpose
  - qualifications
  - cautions on risk and uncertainty
  - limitations or constraints
  - conflicts of interest
  - reliances/information supplied by others
  - the information date
  - subsequent events
- Applies to both internal and external communications

# Applicability Guidelines for Existing Standards

Applicability guidelines are made available by the Academy to help identify which standards are applicable for which types of work. These are for reference only, are not binding, and do not relieve an actuary from the obligation of determining applicability.

Examples of Services Performed	Applicable ASOPs
<p><b>Cash Flow Testing</b></p> <p>Perform Cash Flow Testing in Determining Reserve Adequacy, Performing Pricing Studies, Evaluating Investment Strategies, Developing Financial Projections or Forecasts, Developing Actuarial Appraisals, Testing Future Charges or Benefits That May Vary at the Discretion of the Company, etc</p> <p>Project Asset Cash Flows in Connection with Pricing Studies, Reserve Adequacy, Financial Projections, Actuarial Appraisals</p> <p>Perform experience studies and determine actuarial assumptions for use in Cash Flow Testing</p>	<p>1, 5, 7, 11, 12, 18, 19, 21, 22, 23, 40, 41, 42</p> <p>7, 11, 19, 21, 22, 23, 41</p> <p>7, 12, 18, 21, 22, 23, 41</p>
<p><b>Product Development/Ratemaking/Pricing</b></p> <p>Comply with the NAIC Life Insurance Illustrations Model Regulation</p> <p>Design, Use and Update Risk Classification Systems</p> <p>Determine and Illustrate Dividends for Participating Individual Life Insurance and Annuities</p> <p>Perform Cash Flow Testing in Performing Pricing Studies, Testing Future Charge or Benefits That May Vary at the Discretion of the Company</p> <p>Perform Profitability Analysis/Projections</p>	<p>12, 23, 24, 41</p> <p>12, 23, 41</p> <p>7, 12, 15, 23, 24, 41</p> <p>7, 11, 12, 18, 23, 40, 41</p> <p>5, 7, 10, 11, 12, 18, 23, 40, 41, 42</p>

SAMPLE

A full list of applicability guidelines is available at <http://www.actuary.org/pdf/prof/guide.pdf>

# New/Revised Standards – They Impact You Somehow!

## All Practice Areas

ASOP 1 - Introduction to Actuarial Standards of Practice  
ASOP 25 - Credibility Procedures (update underway)  
Exposure - Modeling

## Life

Exposure - Principles-Based Reserves  
Exposure - Life Settlements Mortality

## Health

ASOP 8 – Regulatory Filings (update underway)  
Under Consideration - Minimum Value under the Affordable Care Act  
Under Consideration - Medicaid

## P&C

ASOP 38 update – Using Models Outside the Actuary's Area of Expertise  
Under Consideration – Ratemaking and Risk Transfer

## Pension

ASOP 4 update – Measuring Pension Obligations  
ASOP 6 update - Measuring Group Benefit Obligations  
Under Consideration – Pension Risk ASOP

## ERM

ASOP 46 – Risk Evaluation in Enterprise Risk Management  
ASOP 47 – Risk Treatment in Enterprise Risk Management

# New/Revised Standards – ASOP 1

- Introduction is now ASOP 1, to make clear that it contains binding guidance (and prior ASOP 1 became ASOP 2, since 2 was repealed)
- Common terms that appear in ASOPs are defined
  - Must - the actuary is unlikely to have any reasonable alternative but to follow the course of action (infrequently used)
  - Should - indicates what is normally the appropriate practice for an actuary to follow when rendering actuarial services
  - Should Consider - suggests potential courses of action. If, after consideration, in the actuary's professional judgment, an action is not appropriate, the action is not required
  - May - the course of action is one that would be considered reasonable and appropriate in many circumstances
- If the term “actuarial soundness” is used, you will need to define it
- Defines other terms used in ASOPs, including deviation, materiality, practical/practicable, professional judgment, reliance, and significant/significance
- Explains purpose and format of ASOPs, and considerations regarding compliance

} Deviation requires disclosure

# New/Revised Standards – ASOP 25

- Key change – now applies to all areas of practice
- Exposed last fall, final expected later this year
- Actuaries must follow the standard when:
  - required by applicable law to evaluate credibility
  - the actuary chooses to evaluate the credibility of subject experience, or states in any related actuarial communication that credibility has been evaluated in accordance with the ASOP
  - when the actuary is blending or should consider blending subject experience with relevant experience OR
  - when the actuary represents the data being used as statistically or mathematically credible

# New/Revised Standards – Modeling Exposure

- New standard – exposure draft expected this summer
- Applies to work related to selecting, designing, building, modifying, developing or using models
  - Extent of application depends on facts and circumstances (extent of reliance, financial importance)
  - Actuary needs to justify any limits on ability to follow guidance
- Model should meet intended purpose
  - Capability consistent with intended application
  - Actuary should understand and document model
  - Inputs, structure, assumptions and parameters are appropriate
- Model should be appropriately governed, controlled, validated to mitigate model risk
- Results should include appropriate information for the user
- Also covers reliance, communication, and documentation

# Where To Go for Additional Guidance

- Actuarial Board for Counseling and Discipline (ABCD) provides guidance to actuaries who ask for help in interpreting the Code and/or actuarial standards of practice (ASOPs).
- Informal requests
  - Individual ABCD member answers an informal inquiry.
  - Responses represent the individual ABCD member's considered opinion, not necessarily the views of the ABCD as a whole.
- Formal requests
  - The ABCD as a whole considers such matters
  - If appropriate, written formal guidance is provided
- The ABCD also responds to requests for guidance from actuarial students and to requests for information from others, such as users of actuarial services.
- Most requests for guidance are made by e-mail or by phone to the ABCD office ([guidance@abcdboard.org](mailto:guidance@abcdboard.org), 202.223.8196) or to an individual ABCD member (see <http://www.abcdboard.org/guidance/> ).



# Qualification Standards

- Precept 2 of Code: Don't perform actuarial services unless qualified to do so
- To issue "Statements of Actuarial Opinion" must meet experience and education requirements
- Basic Requirements
  - Have appropriate credentials, at least 3 years actuarial experience, and knowledgeable of any relevant law
  - For specific practice area, highest designation plus completed specialty exam track OR have highest designation plus 1 year experience in area OR have 3 years experience overseen by a qualified actuary in area
  - Meet continuing education requirements
- Specific Requirements (for issuing NAIC opinions)
  - More specific credentialing and education requirements
  - Minimum of 3 years experience in the relevant field for the opinion

Opinion expressed by an actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed

# Closing Remarks

- If you are a member of the SOA, CAS, CCA, ASPPA, or AAA, the Code of Conduct and ASOPs apply to you – it does not matter what level you are or what type of actuarial work you do
- Use the Applicability Guidelines to help determine which standards you are subject to, and read them periodically
- Questions on interpretation can be directed to the Actuarial Board of Counseling and Discipline (ABCD)
- Two significant standards that you should read if you haven't already are ASOP 1, Introductory Actuarial Standard of Practice and ASOP 41, Actuarial Communications, as these apply to all actuaries

All current standards can be found at <http://www.actuarialstandardsboard.com/asops.asp>